

Finance

DPD-0029/59

Copy 2 of 3

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REPLY TO:

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HQ Eastern District
Auditor General

Liaison Office
Washington, D. C.

7 January 1959

SUBJECT: Report on Price Redetermination Audit
The Perkin-Elmer Corporation
Norwalk, Connecticut

1 November 1957 to 26 September 1958

TO : Contracting Officer

REF : DPS-5737 dated 20 Nov. 1958

1. Results of Examination. The results of the examination,
as summarized in Exhibit A, are shown below:

	Contractor's Proposal	Auditor's Costs Questioned
Costs incurred to 26 September 1958		

2. This contract was completed on 3 September 1958, when Items 2 and 4 were shipped to the customer. However, due to the lag in the contractor's accounting system all costs were not booked until 26 September 1958. In accordance with the Price Redetermination Article, submission of the cost proposal was required within sixty (60) days after completion. Accordingly, a copy of the contractor's cost proposal dated 13 November 1958 was furnished to the Project Auditor on 17 November 1958.

3. Questioned costs stated in par. 1 are briefly described hereunder, with appropriate reference to attached schedules containing detailed explanations:

a. Schedule 1 - Subcontracts Not Specifically Approved (31,314): The subcontracts listed were not approved by the Contracting Officer, as required by the contract.

b. Schedule 2 - Overtime Premium (\$547): Not approved by the Contracting Officer.

Subj: Report on Price Redetermination Audit, The Perkin-Elmer Corp.,
Norwalk, Conn., [] 1 Nov 57 to 26 Sep 58

25X1

c. Schedule 3 - General & Administrative Expense Claimed
for Year Ended 31 July 1958 in Excess of Acceptable Rate (\$705):

Contractor is claiming G & A for this year computed at the book rate
of [] Rate acceptable to the Auditor for contract cost purposes
is 18%, the same as proposed by the contractor to the []
[] Auditor for finalization of certain [] termination
claims.

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d. Schedule 4 - General & Administrative Expense on Direct
Costs Questioned (\$6,213): G & A on direct costs questioned in
Schedules 1 and 2.

4. Although the contractor did not maintain records to support
consumption of direct materials, we were able to satisfy ourselves
as to the reasonability of quantities procured for modification kits,
spare parts kits and predictable overhaul parts by reference to the
contract and requirement lists prepared by the Engineering Dept.
Necessity of materials acquired for Unpredictable Overhaul of parts,
totalling \$6,680, could not be determined although quantities appear
to be reasonable in view of the fact that they are less than one (1)
each for the sixteen (16) units being modified.

5. The contractor has not yet complied with final property
accounting requirements under the Project. However, it was estab-
lished by the auditor that residual inventories do exist and we
understand that this information is now in process of being compiled.
Settlement of this proposal should, therefore, be subject to the
results of the property audit.

6. Contractor's Reaction to Auditor's Costs Questioned:
Findings of the auditor contained in attached Exhibit and Schedules
were discussed on 22 November 1958 with [], Asst. to
the General Manager. The Contractor's position is as follows:

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a. Schedules 1, 2 and 4: Does not concur. Approvals were
not obtained due to the crash nature of the program and the security
requirements.

b. Schedule 3: Prefers to leave for negotiation.

7. Contractor's Voluntary Adjustment as a Result of Audit: During
the course of our audit it was found that an item of contractor-owned
durable test equipment, costing \$1,214, had erroneously been charged
to the contract. We pointed this out to the contractor as a result of
which this amount was credited to contract costs and deleted from the
cost proposal.

8. Comments on Profit: The contractor has not made a specific
proposal for profit allowance but is leaving the amount to be determined

25X1 Subj: Report on Price Redetermination Audit, The Perkin-Elmer Corp.,
Norwalk, Conn., [redacted] 1 Nov 57 to 26 Sep 58

by negotiation. Contract price consideration is as follows:

	<u>Contract Target</u>	<u>Ceiling Price</u>
25X1A10	[redacted]	
Price		[redacted]

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The amount of profit is to be determined by the extent to which the contractor has performed the contract with efficiency, economy and ingenuity.

The Contractor's position is that the target price was contingent upon receipt of all trackers from the Government by 8 March 1958; however, the last two (2) trackers were not received until late April 1958, thus making scheduled delivery impossible and increasing the cost of the contract. The contractor further states that the work was stopped twice while waiting for the trackers.

However, it is pointed out that in accordance with article 30, Government-Furnished Property, if the property is not delivered to the contractor by such times necessary to meet delivery or performance dates, the contractor shall make a timely written request to the Contracting Officer for equitable adjustment of the delivery or performance dates or the contract price, or both, as provided for in article 2, changes. To our knowledge, this was not done.

In addition, internal correspondence of the contractor indicated that if the contractor had been able to do all of the work at one time (and trackers were available) actual costs would have exceeded contract target costs by \$3 - \$4,000. This appears to have been caused by the fact that the contractor greatly underestimated assembly labor in its target cost proposal. Actual assembly labor exceeds the target amount by approximately 850 hours.

Accordingly, the matter of profit allowance is referred to the Contracting Officer for appropriate determination.

[redacted]
Liaison Officer
Eastern District
Auditor General

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Exhibit A

The Perkin-Elmer Corporation
Norwalk, Connecticut

Summary of Examination of Costs

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<u>Contractor's Proposal</u>	<u>Auditor's Costs Questioned</u>	<u>Ref. Note</u>
<u>Costs incurred to 26 September 1958:</u>		25X1A10
<div></div>		(A)
		(B)
		(C)

Explanatory Notes:

- (A) See Schedule 1.
- (B) See Schedule 2.
- (C) See Schedules 3 and 4.

Schedule 1

The Perkin-Elmer Corporation
Norwalk, Connecticut

Subcontract Not Specifically Approved
Year Ended 31 July 1958

Subcontracts not approved by the Contracting Officer as
required by the Subcontracts article of the contract:

<u>P. O. No.</u>	<u>Subcontractor</u>	<u>For</u>	<u>Amount</u>
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Not Approved as to Source:

(14743			
(17217	American Cam Co.)	Purchased finished	
18525	Lowry Engineering)	Spare parts (Cams)	

Not Specifically Approved (over \$25,000):

12831	Daco Instrument Co.	Modification Kits	
	Total costs questioned		

Explanatory Note:

- (A) Includes \$60 for overtime premium charges incurred
by the Subcontractor not specifically approved.

Schedule 2

The Perkin-Elmer Corporation
Norwalk, Connecticut

Overtime Premium
Year Ended 31 July 1958

Overtime premium for which specific approval was not obtained
from the Contracting Officer:

	<u>Hours</u>	<u>Premium Amount</u>
Engineering	<div></div>	
Machine Shop		
Assembly		
Total Costs Questioned		

Schedule 3

The Perkin-Elmer Corporation
Norwalk, Connecticut

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General & Administrative Expense Claimed for Year Ended
31 July 1958 In Excess Of Acceptable Rate

	<u>Rate Claimed</u>	<u>Acceptable Rate</u>	<u>Rate Difference</u>	<u>Approved Base</u>	<u>G & A Questioned</u>
25X1A10					
25X1A10		18.0% (A)		(B)	

25X1A10
25X1Explanatory Notes:

(A)	<u>Book Rate</u>	<u>Negotiated Rate</u>	<u>Rate Difference</u>
25X1A10 Year ended 31 July 56 Year ended 31 July 57			
25X1A10 (1) Average rate difference for two year period			
(2) Actual book rate year ended 31 July 1958			
Calculated rate - (2) minus (1)			
Rate Accepted by Auditor			
			18.00%*
*Rate recently proposed to Air Force Resident Auditor for finalization of termination claims.			
(B) Manufacturing costs claimed Less Auditor's Costs Questioned (Schedules 1 & 2) Approved manufacturing Costs			

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Schedule 4

The Perkin-Elmer Corporation
Norwalk, Connecticut

General & Administrative Expense on Direct Costs Questioned
Year Ended 31 July 1958

Direct Costs		Claimed	G & A
Questioned			
<u>Ref</u>	<u>Amount</u>	<u>Rate</u>	<u>Questioned</u>

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